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SUBJECT: THE FOUR MAJOR SWEDISH BANKS REPORTING MAJOR CREDIT LOSSES

¶1. Summary: Sweden's banking sector is highly concentrated, with four large banking groups (Nordea, Handelsbanken, Swedbank and Skandinaviska Enskilda Banken (SEB)) accounting for roughly 80 percent of sector assets. Beginning July 17, these four major banks presented their results for the second quarter of the year. They all reported severe credit losses, albeit some reports were still better than expected. At the same time Swedish Minister for Local Governance and Financial Markets Mats Odell said that if needed, the government is open for a prolonged and possibly extended support package for the Swedish banks. End summary.

¶2. On July 17, Swedbank presented its report for the second quarter of 2009. The report revealed Swedbank's credit losses amounted to \$854 million, which was worse than expected. Swedbank CEO Michael Wolf says the quality of credits has deteriorated even more in Latvia, Lithuania and Ukraine, while improved slightly in Estonia. Swedbank is badly exposed in all these countries due to very high levels of lending. As a result, Swedbank expects to cut the number of employees by some 3600 by the end of 2010, with about 500 of these cuts targeted for its Swedish operations.

¶3. Skandinaviska Enskilda Banken (SEB) reported its result for the second quarter on July 20. Profits decreased significantly, mainly due to credit losses and write-offs on investments in the Baltic States and Russia. The company's second quarter operating profits reached \$80 million, down \$371 million from the \$451 million posted in the same period in 2008. SEB's credit losses for the period were \$465 million, compared with \$58 million in the same period last year. The bank revealed that it had made write-offs for all goodwill relating to its investments in the Baltic states and Russia. CEO Annika Falkengren was bullish about the results: "SEB generated overall strong income growth and strengthened its customer franchise, particularly within wholesale banking," she said, adding that the bank's "robust balance sheet" and strong capital ratio would help reinforce its position in the current economic difficulties.

¶4. Handelsbanken's result for the second quarter, presented on June 21, exceeded expectations and credit losses were comparatively small (\$122 million), thereby making it the most successful out of the major Swedish banks. The strong performance can be attributed to lower credit losses than the other banks (due to relatively low exposure to the recession in the Baltic states and Ukraine) and strong growth. Handelsbanken also reported its second quarterly profits rise this year, becoming the only big Swedish bank to achieve this improvement on a 12-month basis. Yet another contribution to the good result was a lower-than-expected rise in bad loans.

¶5. Nordea also reported a surprisingly good result when the bank presented its report on July 21. "We are in the midst of one of the most severe economic downturns of modern times, yet we managed to show one of the best half-year results ever," Danish CEO Christian Clausen writes in the report, thanking his coworkers, the customers and the bank's solid capital. Credit losses amounted to \$604 million, up 20 percent compared to the first quarter. Along with the good report, the bank is revising its bonus program, opening the way for higher bonuses for high level employees.

Government Response

¶6. Swedish Minister for Local Governance and Financial Markets Mats Odell stated that, if needed, the government is open for a prolonged and possibly extended support package for the Swedish banks. The Government still has \$5.6 billion left earmarked to support banks in need. "There is still a big uncertainty of the economic development and its impact on the banks' capital. Therefore we have decided to prolong the banks' and the credit institutions' possibilities to apply for government support another six months, until February 17 2010," Odell said. So far, Nordea is the only bank to have taken advantage of the support program that originally was set up with some \$6.3 billion.

¶7. The Swedish Financial Supervisory Authority and the Swedish Central Bank (Riksbank) are encouraging the banks to hold enough capital to meet the possible outcomes of the crisis. According to Odell, this is the underlying reason for prolonging the application period. The Government also wants to provide an opportunity for banks that might wish to increase lending or improve their capacity to tackle upcoming credit losses.

SILVERMAN